BRAZIL

CS Brazil Industry Sector Analysis

PAY TV MARKET

January 2006

Summary

The Brazilian market for Pay TV was estimated to be US$ 2.1 billion at year-end 2005. Pay TV broadcasters, as of September 2005, had nearly 4 million subscribers in Brazil.

Internet access, VoIP (Voice over the Internet Protocol,) Triple-Play Services (combination of voice, video and data), and Wi-Max (wireless networking specification used for long-haul and backhaul connections,) are expected to bring a flow of new investment and to contribute to the expansion of this market over the next few years. Best prospects for US suppliers include all type of broadband solutions such as cable modems, home networking platforms, IP telephones and video-on-demand services.

Market Overview

According to the Brazilian Pay TV Association (ABTA,) the Pay TV market in Brazil generated net revenues of an estimated US$ 2.1 billion for 2005, a significant increase when compared to US$ 1.7 billion for 2004. The total number of subscribers as of September 2005 was 3.9 million (3.8 percent increase over the previous quarter) and the industry estimated a total of 4.0 million subscribers in Brazil by year-end 2005.

Broadband via cable is also experiencing significant growth with 529,000 subscribers as of September 2005, a 17 percent increase over the previous quarter. The Pay TV broadcasters expect to have approximately 600,000 subscribers by the end of December 2005 a 65% increase over 2004.

Cable is the most commonly used distribution system accounting for 60% of the market with 2.4 million subscribers. At the very beginning the Pay TV signal distribution networks were designed to serve homes, but evolution of the technology provided increased access to corporate markets as well as residential markets and created opportunities for marketing additional services, including voice, data communications and high-speed access to the Internet. The largest cable TV companies operating in Brazil are: NET Serviços; TVA; Canbrás; Horizon; ITSA; TV Cidade; Big TV; RTC Fortaleza; Master Cabo; W@y Brasil; Image Telecom; ESC 90 and TVC Marília.

DTH (Direct to Home) delivery systems also experienced a significant growth in the past four years and now account for 35% of the market with approximately 1.4 million subscribers. DTH services in Brazil – Direct TV, Sky and Tecsat in Ku band, and Digisat in C band – use digital signals to provide services to their client.

The first DTH services in Brazil used C band, the same frequency used by open TV broadcasting stations to deliver their signals all over the country, utilizing a type of parabolic antenna. Today it is estimated that there are over 5 million parabolic antennas installed in Brazil to capture these signals. Most subscribers use the Ku band system with a much smaller antenna, which can be easily installed, even inside the home.

MMDS (Multi-channel Multipoint Distribution Service) has 5% of the market with 199,000 subscribers. MMDS uses the frequency range between 2.500 and 2.686 MHz, as well as the 2.170 to 2.182 MHz range, meaning that 198 MHz of spectrum range are available for a varied range of services. Main companies operating in the sector are Net (35 percent); Sky (22 percent); Direct TV (12 percent); TVA (8 percent) and Vivax (7 percent).

The statistical data on the Brazilian market for Pay TV reflects the socio-economic conditions within the country. Pay TV is still considered very expensive for the majority of the population and competes with free on the air TV that reaches 97 percent of the households.

On the other hand, the Brazilian system of Pay TV is well organized and the vast majority of the companies have Digital Head-End equipment. The cable sector should benefit from the introduction of more modern cable modems services using the cable TV infrastructure.

Pay TV companies are optimistic about the market with the introduction and spread of triple play, Wi-Max and the increase of broadband services.

Background

The first effective Pay TV broadcast market in Brazil started in 1980, however the effective implementation and regulation of Pay TV service took place in February 1988. In 1991 some of the most important media groups entered the sector investing in new technologies. Organizações Globo were pioneers with the creation of GloboSat, a service Pay TV with C band; and Abril Group created TVA. Other important groups like RBS and Algar Group entered the market soon afterwards.

The Cable TV act transformed the Pay TV licenses into concessions and the Brazilian government decided that new licenses would only be granted from then on by means of open bids. The bids opened by the Communications Ministry in 1988 were concluded almost 10 years later, in 1998, by Anatel, the Brazilian Telecommunications Agency. The winners began implementing their operational bases in 1999.

With the enactment of the Telecommunications General Law (Law nr. 8977)), in 1997, Anatel took over the role of regulatory agency of all telecommunications services, including those of Pay TV and has been giving continuity to the bidding process for expansion of services.

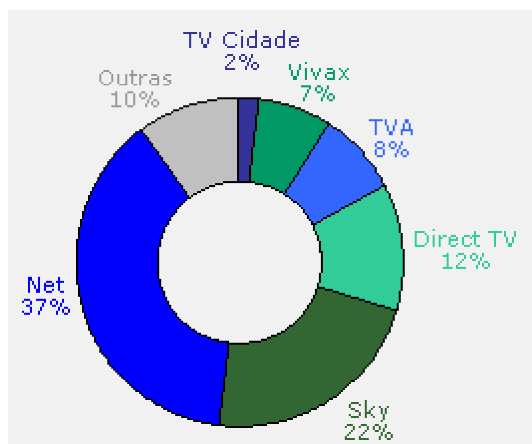
Statistical Data

Pay TV Market in Brazil

	2004	As Of September 2005	2006 Estimate
# of Pay TV Subscribers	3,7million	4.0 million	4,2 million
# of Internet Subscribers	367,000	528,000	636,000
Net Revenue US$**	1.7 billion	1.5 billion*	2.2 billion

* *January / September 2005*
***Exchange rate of R$ 2.3/US$ 1.00*

Market Share of the Pay TV Market



As a result of the new auctions, important localities such as Salvador, São Luís, Teresina and Manaus, among others, now have access to cable TV and MMDS options, whereas before they were covered only by DTH. However, the Southeast region still has by far the larger number of subscribers.

Panorama of the Pay TV Market – June 2005

	In Installation	In Operation	Total
Cable TV	70	216	286
MMDS	18	66	84
DTH	1	9	10
Total	89	291	380

Currently all cable TV and MMDS operators provide Internet access service. The largest ones operating in Brazil are NET Serviços; TVA; Canbrás; Horizon; ITSA; TV Cidade; Big TV; RTC Fortaleza; Master Cabo; W@y Brasil; Image Telecom; ESC 90 and TVC Marília among others. By the end of September 2005 there were approximately 528,000 subscribers using high-speed Internet via cable modem, providing access to more than 1 million people in Brazil.

Monthly fees represent approximately 86 percent of the total revenues. However the participation of the Internet broadband has been growing significantly and already represents eight percent of the revenues.

The combination of voice, video and data services (triple play) is bringing new perspectives for the sector and in October 2004, TV Cidade and TVA were the first Brazilian operators to adopt the triple play strategy, combining VoIP, broadband and Pay TV services. All other Pay TV companies are following in the same direction.

Market Access

In order to initiate cable TV services, a carrier must obtain two licenses: one from the Ministry of Communications and one from the Ministry of Culture and Mass Communications.

Foreign ownership of cable companies is limited to 49 percent. The foreign owner must have headquarters in Brazil and must have had a presence in the country for the prior 10 years.

Foreign cable and satellite television programmers are subject to an 11% remittance tax; however, the tax can be avoided if the programmer invests 3 percent of its remittances in co-production of Brazilian audio-visual programs. National cable and satellite operators are subject to a fixed title levy on foreign content and foreign advertising released on their channels.

Competition

Although penetration is still relatively low, Pay TV is beginning to play a key role in Brazil's economy. The industry turnover was US$ 1.7 billion in 2004, including only the programmer and operator's revenues. In the case of operators, the figure includes total revenue from membership fees and monthly subscriptions plus sales of programming magazines, advertising etc. On average, about 25% of total revenues goes back into purchasing of programming.

In addition the Pay TV industry accounts for a significant proportion of the revenues collected by telecommunications equipment manufacturers and service providers such as installers and network designers and builders.

Nevertheless, the market is still dominated by very large organizations such as NET Serviços; TVA; Canbrás; Horizon; ITSA and TV Cidade.

Trends

The biggest investors in the Pay TV Market will continue to be the Cable TV companies, who were responsible for 77% of the total US$ 113 million invested in 2005. In 2006 these companies will be concentrated in ramping up voice service products so as to provide a higher quality of service and retain their client base as competition increases.

While virtually all cable TV companies offer cable modem services, ADSL is the access technology of choice, accounting for 84 percent of the country's broadband market. Convergence strategies are gaining popularity in Brazil. With the widespread development of VoIP, more and more companies are looking to incorporate Internet telephony with their broadband offerings.

Video-on-Demand, Home Shopping, home banking and all new Internet solutions will continue enjoy good opportunities in the Brazilian market as the market remains relatively unexploited.

Furthermore, IP services solutions via cable modem combining data, voice and video are also on high demand in Brazil. As an example, recently Motorola started the development of new terminations modular systems M-CMTS (Modular Cable Modem Termination System). The focus of this development is to provide robust IP tools in terms of security and management and a secure pat in the migration to Ipv6.

High Definition Television (HDTV) is expected to be one of the major future markets in Brazil. Following on the heels of the development and tremendous growth of HDTV in other countries, Brazil is currently in the process of developing its own road map for the introduction of digital TV to a potentially huge market. By March 2006 the Brazilian Government (GOB) will announce its decision on which standard technology will be adopted: European, Japanese or American. A major study by Brazilian research centers and Universities will inform the decision. The Pay TV industry is also paying close attention for new opportunities in this market.

Upcoming Trade Shows

PAY TV TRADE SHOW

ABTA – Trade Show & Conference
This is the largest Pay TV trade show in Brazil and is organized by the Brazilian Pay TV Association. Date – Date: To be confirmed - Usually takes place in August or September
Website: http://www.abta.com.br/

BROADCASTING EQUIPMENT TRADE SHOW

Broadcast & Cable Equipment & Services Trade Fair
The event is organized by SET – Brazilian Society of Television and Telecommunications Engineering
Date: August 23-25, 2006
Website: www.broadcastcable.com.br

Sources

Statistical data compiled from the following sources:

ANATEL – Brazilian Telecommunications Body
www.anatel.gov.br

ABTA – Brazilian Pay TV Association
www.abta.com.br

TELECO – Telecom Information
www.teleco.com.br

Key Contacts

U.S. Companies interested in additional information about this sector should contact US Commercial Service Trade Specialist in Brazil Ebe Raso at: Ebe.Raso@mail.doc.gov

For a good overview of exporting to Brazil, please look at out US Country Commercial Guide to Brazil:
www.focusbrazil.org.br/ccg

US Commercial Service in Brazil:
www.buyusa.gov/brazil

For more information on this sector in other countries, please visit Export.gov's website for US Commercial Service Market Research Worldwide:
http://www.export.gov/marketresearch.html

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